

Matzikama Municipality



Adjustment Budget 2013/14 – 2014/16

Adjusted Medium Term Revenue
and Expenditure Framework

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Glossary

Adjustments Budget - Prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.

Allocations - Money received from Provincial or National Government or other municipalities.

Budget - The financial plan of the Municipality.

Budget Related Policy - Policy of a municipality affecting or affected by the budget, examples include tariff policy, rates policy and credit control and debt collection policy.

Capital Expenditure - Spending on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's balance sheet.

Cash flow statement - A statement showing when actual cash will be received and spent by the Municipality. Cash payments do not always coincide with budgeted expenditure timings. For example, when an invoice is received by the Municipality it is shown as expenditure in the month it is received, even though it may not be paid in the same period.

DORA - Division of Revenue Act. Annual legislation that shows the total allocations made by national to provincial and local government.

Equitable Share - A general grant paid to municipalities. It is predominantly targeted to help with free basic services.

Fruitless and wasteful expenditure - Expenditure that was made in vain and would have been avoided had reasonable care been exercised.

GFS - Government Finance Statistics. An internationally recognised classification system that facilitates like for like comparison between municipalities.

GRAP - Generally Recognised Accounting Practice. The new standard for municipal accounting.

IDP - Integrated Development Plan. The main strategic planning document of the Municipality

KPI's - Key Performance Indicators. Measures of service output and/or outcome.

MFMA - The Municipal Finance Management Act - No. 53 of 2003. The principle piece of legislation relating to municipal financial management.

MTREF - Medium Term Revenue and Expenditure Framework. A medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations. Also includes details of the previous and current years' financial position.

Net Assets - Net assets are the residual interest in the assets of the entity after deducting all its liabilities. This means the net assets of the municipality equates to the "net wealth" of the municipality, after all assets were sold/recovered and all liabilities paid. Transactions which do not meet the definition of Revenue or Expenses, such as increases in values of Property, Plant and Equipment where there is no inflow or outflow of resources are accounted for in Net Assets.

Operating Expenditure - Spending on the day to day expenses of the Municipality such as salaries and wages.

Rates - Local Government tax based on the assessed value of a property. To determine the rates payable, the assessed rateable value is multiplied by the rate in the rand.

SDBIP - Service Delivery and Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.

Strategic Objectives - The main priorities of the Municipality as set out in the IDP. Budgeted spending must contribute towards the achievement of the strategic objectives.

Unauthorised expenditure - Generally, spending without, or in excess of, an approved budget.

Virement - A transfer of budget.

Vote - One of the main segments of a budget. The structure is for reporting requirements and links the accounting performance both to the IDP and to the responsible officials. The vote structure at Matzikama is made up as follows:

Vote 1	Executive & Council
1.1	<i>Council</i>
1.2	<i>Local Economic Development</i>
1.3	<i>Municipal Manager</i>
1.4	<i>DMA</i>
1.5	<i>Tourism</i>
Vote 2	Finance
2.1	<i>Equitable Share</i>
2.2	<i>Expenses</i>
2.3	<i>Finance</i>
2.4	<i>Income</i>
2.5	<i>Taxes</i>
Vote 3	Corporate
3.1	<i>Corporate</i>
3.2	<i>Human Resources</i>
3.3	<i>Property Management</i>
3.4	<i>I.T</i>
3.5	<i>Town Planning</i>
3.6	<i>Libraries</i>
Vote 4	Community Services
4.1	<i>Community Halls</i>
4.2	<i>Cemeteries</i>
4.3	<i>Housing</i>
4.4	<i>Traffic</i>
4.5	<i>Vehicle Licencing</i>
4.6	<i>Sport and Recreation Vredendal</i>
4.7	<i>Refuse Removal Vredendal</i>
4.8	<i>Street Cleansing Vredendal</i>
Vote 5	Technical
5.1	<i>Cemeteries Outside Towns</i>
5.2	<i>Sport and Recreation Outside Towns</i>
5.3	<i>Resorts</i>
5.4	<i>Refuse Removal Outside Towns</i>
5.5	<i>Sewerage</i>
5.6	<i>Roads</i>
5.7	<i>Street Cleaning Outside Towns</i>
5.8	<i>Water Distributions</i>
5.9	<i>Electricity Distributions</i>

PART 1 - ANNUAL BUDGET

Section 1 - Mayor's Report

It is with great pleasure that I present the 2013/2014 Adjustment Budget to the Council for consideration.

The reason for the tabling of an adjustment budget is fully disclosed in the executive summary of the budget documentation. The adjustments were necessitated as a result of decreased grant funding as well as adjustments required due to effectively manage cash flow.

Council is still committed to ensure high quality basic services and is very aware of the pressure on disposable income levels.

The main adjustments proposed in this adjustment budget are:

Operating Budget

- 1) An increase in total revenue amounting to R 2.050 million. This increase is mainly as a result of the following -
 - a. An increase in the levied service charges revenue for sanitation and refuse removal.
 - b. Provincial Allocations in the Revised Government Gazette published for:
Provincial Financial Management Grant R0.350 million
CDW- support grant R0.164 million
- 2) A decrease in certain operating expenditure items amounting to R 3.858 million. This decrease was necessary to fund critical expenditure items, of which the material adjustments are listed below -
 - a. An increase in finance charges, amounting to R1.7 million. This increase could mainly be attributed to the interest on the landfill site provision not previously provided for. It is a legislative requirement to make a contribution towards rehabilitation of Matzikama's landfill sites.
 - b. An increase in electricity bulk purchases of R 1.100 million. This increase was necessitated by the increased electricity demand.

The net effect from these adjustments inclusive of reducing expenditure resulted in the projected operating deficit for the year (excluding capital transfers), previously stated at R16.210 million, decreasing to R10.302 million.

Capital Budget

The municipality decreased its planned capital expenditure from R 59,253 million to R43, 124 million. This decrease could mainly be attributed to a decrease in Housing Grant revenue. The other adjustments can also be attributed to own funds not being available to finance capital programs.

The revised forecasted expenditure can be summarised as follows: (R 000)

TYPE	2013/2014	2014/2015	2015/2016
Operating	280 695	223 041	235 080
Capital	43 124	33 151	31 280
TOTAL	323 819	256 192	266 630

Funding and Cash flows

The revised budget for 2013/2014 is cash-funded.

The expected Cash flows for the MTREF period is as follows (R'000)

Source	2013/2014	2014/2015	2015/2016	
NET CASH FROM/(USED) OPERATING ACTIVITIES	37 495	36013	35102	
NET CASH FROM/(USED) INVESTING ACTIVITIES	(38198)	(27807)	(25725)	

NET CASH FROM/(USED) FINANCING ACTIVITIES	(7988)	(5523)	(5195)	
NET INCREASE/ (DECREASE) IN CASH HELD	(8690)	2683	4182	
Cash/cash equivalents at the year begin:	11644	2954	5637	
Cash/cash equivalents at the yearend:	2954	5637	9819	

As can be seen from the above illustrations, the municipality's cash resources are envisaged to increase over the MTREF period provided that prudent financial management and budgetary constraints are maintained to be in line with cash flow. We have to plan accordingly and embark on strategies to do more with less in order for this municipality to be in a position to deliver sustainable services over the long-term.

I believe we have done all in our power to address service delivery requirements within our financial means and would like to thank our community for their patience and inputs into the I.D.P. process, my fellow Councillors for their continued hard work and support as well as the Municipal Manager and his staff for all their efforts.

Unforeseen and unavoidable expenditure

None to report.

Changes to allocations and grant adjustments

Changes to expected grant expenditure are reflected below. Full details regarding income and allocations are disclosed in documentation forms SB7 to SB9.

Recommendations

It is recommended:

- 1) that the Council approves the adjustments budget; and
That the Council approves the changes to the service delivery and budget implementation plan.

Section 2 - Budget Related Resolutions

ADJUSTMENT BUDGET 2013/2014

The resolution to be tabled at Council for consideration of approval of the adjustments budget is:

RECOMMENDATION:

- a) That the adjustments budget, inclusive of the adjustments as envisaged by section 28(2) of the MFMA, for the financial year 2013/2014; and indicative for the two projected years 2014/15 and 2015/16, as set-out in the schedules contained in Section 4, be approved:
 - (i) Table B1 Adjustments Budget Summary;
 - (ii) Table B2 Adjustments Budget Financial Performance (by standard classification);
 - (iii) Table B3 Adjustments Budget Financial Performance (by municipal vote);
 - (iv) Table B4 Adjustments Budget Financial Performance (revenue by source); and
 - (v) Table B5 Adjustments Budget Capital Expenditure (by municipal vote and funding source)
- b) That the amended performance objectives as contained in the SDBIP be approved (Attached supporting documentation form SB 3).

Section 3 - Executive Summary

Introduction

The financial position of Matzikama Municipality is still under pressure at this stage. It is however advised that new funding sources be exploited to fund the capital program (i.e. more own revenue or additional grant funding). The current financing structure places enormous strain on the accumulated reserves of the municipality and it is inevitable that all reserves will be depleted in the near future. This will result in a major downturn in capital expenditure in future periods that could result in a slowdown of economic growth in the municipal area.

Management should always strive to maintain, and where possible increase accumulated reserves. This is however only possible if capital projects from own resources are reduced and or additional revenue streams are accessed in order to ensure a sustainable long term capital expansion plan.

Effect of the adjustment budget

The overall changes made to the 2013/2014 budget can be best illustrated in the charts below.

Revenue (Excluding Capital Grant Revenue)

Group Item	Sum of APPROVED BUDGET 2013/14	Sum of ADJUSTMENTS	Sum of ADJUSTMENT BUDGET
Agency Services	(2 000)	-	(2 000)
Fines	(2 497)	1 000	(1 497)
Gains on Disposal of PPE	(5 000)	-	(5 000)
Interest Earned - external Investments	(50)	(140)	(190)
Interest earned - outstanding debtors	(1 500)	(300)	(1 800)
Licences and Permits	(1 641)	(31)	(1 672)
Other Revenue	(1 253)	(702)	(1 955)
Property rates	(30 261)	1 236	(29 025)
Rental of Facilities and Equipment	(3 000)	(337)	(3 337)
Service charges - electricity revenue	(76 090)	1 119	(74 971)
Service charges - refuse revenue	(7 937)	(1 329)	(9 265)
Service charges - sanitation revenue	(9 165)	(2 838)	(12 003)
Service charges - water revenue	(11 499)	436	(11 063)
Transfers recognised - operating	(44 552)	(164)	(44 716)
al	(196 443)	(2 050)	(198 493)

Revenue (Including Capital Transfers)

Budgeted capital grant revenue from national and provincial government declined from R52,123 million to R40,873 million, mainly due to the Housing grant revenue for top-structures that will no longer be paid by the municipality to the contractor but by the Department of Housing.

GrpItem	Sum of APPROVED BUDGET 2013/14	Sum of ADJUSTMENTS	Sum of ADJUSTMENT BUDGET
Agency Services	-2 000 000	0	-2 000 000
Fines	-2 496 500	1 000 000	-1 496 500
Gains on Disposal of PPE	-5 000 000	0	-5 000 000
Interest Earned - external Investments	-50 000	-140 000	-190 000
Interest earned - outstanding debtors	-1 500 000	-300 000	-1 800 000
Licences and Permits	-1 640 500	-31 289	-1 671 789
Other Revenue	-1 252 880	-702 100	-1 954 980
Property rates	-30 260 765	1 236 106	-29 024 659
Rental of Facilities and Equipment	-3 000 110	-336 900	-3 337 010
Service charges - electricity revenue	-76 089 660	1 118 933	-74 970 727
Service charges - refuse revenue	-7 936 740	-1 328 696	-9 265 436
Service charges - sanitation revenue	-9 165 324	-2 838 000	-12 003 324
Service charges - water revenue	-11 498 601	436 003	-11 062 598
Transfers recognised - capital	-52 123 000	11 250 410	-40 872 590
Transfers recognised - operating	-44 552 000	-164 000	-44 716 000
	-248 566 080	9 200 467	-239 365 613

Operating Expenditure

The operational budget expenditure has been adjusted downwards from R 212.653 million to R 208.795 million.

GrpItem	Sum of APPROVED BUDGET 2013/14	Sum of ADJUSTMENTS	Sum of ADJUSTMENT BUDGET
Bulk purchases	66 319 068	1 100 000	67 419 068
Contracted services	290 000	-130 000	160 000
Debt Impairment	6 000 000	0	6 000 000
Depreciation & asset impairment	15 688 717	-3 017 787	12 670 930
Employee related costs	76 130 387	0	76 130 387
Finance Charges	6 538 939	1 453 203	7 992 142
Other expenditure	35 438 100	-3 383 904	32 054 196
Remuneration of Councillors	5 353 100	93 472	5 446 572
Transfers and grants	895 000	27 000	922 000
	212 653 311	-3 858 016	208 795 295

The new projected forecasts for the MTREF are as follows:

OPERATING BUDGET (R' 000)

Type	2013/14	2014/15	2015/16
Revenue	239 366	242 944	253 936
Expenditure	208 795	223 041	235 080
Surplus/(Deficit)	30 571	19 953	18 857
Less: Capital Grants	(40 873)	(33 151)	(31 280)
Surplus/(Deficit) excluding capital grants	(10 302)	(13 198)	(12 423)

CAPITAL BUDGET (R' 000)

Asset type	2013/14	2014/15	2015/16
Community	9 193	0	0
Infrastructure - Electricity	2 314	3 000	0
Infrastructure - Other	3 775	0	0
Infrastructure - Road transport	10 543	15 500	0
Infrastructure - Sanitation	15 220	14 601	20 380
Infrastructure - Water	780	0	10 900
Intangibles	200	0	0
Other assets	1 279	50	0
Total	43 124	33 151	31 280

The projected funding of the capital budget is as follows: (R 000)

Funding Source	2013/14	2014/15	2015/16
National Government	33 615	23 101	21 280
Provincial Government	7 258	10 050	10 000
Own Funds	2 251	0	0
Total	43 124	33 151	31 280

BUDGET SUMMARY

A summary of the revised budget can be seen on table B1.

Section 4 - Adjustment budget tables

The adjustments budget tables are attached to this document as Tables B1 to B 10. Tables supporting the above (SB1 to SB20) are also attached and listed separately.

The Budget tables are:

Table B1 - Adjustments Budget Summary

Table B2 - Adjustments Budgeted Financial Performance (revenue and expenditure by standard classification)

Table B3 - Adjustments Budgeted Financial Performance (revenue and expenditure by municipal vote)

Table B4 - Adjustments Budgeted Financial Performance (revenue and expenditure)

Table B5 - Adjustments Budgeted Capital Expenditure by vote, standard classification and funding

Table B6 - Adjustments Budgeted Financial Position

Table B7 - Adjustments Budgeted Cash Flows

Table B8 - Adjustments Cash backed reserves/accumulated surplus reconciliation

Table B9 - Adjustments Budget Asset Management

Table B10 - Adjustments Budget Basic service delivery measurement

The municipality does not have any entities for which adjustments budgets must be prepared. The municipality is currently in the start-up phase a new entity relating to LED.

PART 2 – SUPPORTING DOCUMENTATION

Section 5 - Measurable performance objectives and indicators

Changes to measurable performance objectives and indicators are included in the supporting tables (SB3) attached. These indicators are part of the indicators contained in the Service Delivery and Budget Implementation Plan, which again forms the basis of the performance contracts of the Municipal Manager and Senior Management.

Section 6 - Budget related policies

There are no changes to the budget related policies proposed in the adjustments budget.

Section 7 - Overview of budget assumptions

Budget Assumptions

There are no changes to the budget assumptions proposed in the adjustments budget.

Section 8 - Funding compliance

The adjustments budget is not cash - funded which is the first indicator of a "credible" budget.

	2013/2014	2014/2015	2015/2016
Cash and investments available	2954	5637	9819
Application of cash and investments	7403	7975	7770
Surplus/(Shortfall)	(4449)	(2338)	2049

It should be noted that although the budget is not funded, the shortfall will decrease over the MTREF period if the strict budget controls are maintained.

Section 9 - Overview of budget funding

Funding the Budget

Section 18(1) of the MFMA states that an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget referred to in section 17.

Achievement of this requirement in totality effectively means that a Council has 'balanced' its budget by ensuring that budgeted outflows will be offset by a combination of planned inflows.

A Credible Budget

Amongst other things, a credible budget is a budget that:

- Funds only activities consistent with the revised IDP and vice versa ensuring the IDP is realistically achievable given the financial constraints of the municipality;
- Is achievable in terms of agreed service delivery and performance targets;
- Contains revenue and expenditure projections that are consistent with current and on past performance and supported by documented evidence of future assumptions;
- Does not jeopardise the financial viability of the municipality (ensures that the financial position is maintained within generally accepted prudential limits and that obligations can be met in the short, medium and long term); and
- Provides managers with appropriate levels of delegation sufficient to meet their financial management responsibilities.

A budget sets out certain service delivery levels and associated financial implications. Therefore the community should realistically expect to receive these promised service delivery levels and understand the associated financial implications. Major under spending due to under collection of revenue or poor planning is a clear example of a budget that is not credible and unrealistic.

Furthermore, budgets tabled for consultation at least 90 days prior to the start of the budget year should already be credible and fairly close to the final approved budget.

Section 10 - Expenditure on allocations and grant programmes

Grant allocations

Details of each grant to be received and spent are shown in the schedules SB7 to SB9 attached to the report.

Section 11 - Allocations and grants made by the Municipality

Allocations Made by the Municipality

No allocations are made by the municipality.

Section 12 - Councillor Allowances and employee benefits

Salaries, Allowances and Benefits

Details of Councillor Allowances and employee benefits are included in supporting table SB11 attached.

Section 13 - Monthly targets for revenue, expenditure and cash flow

Monthly Cash Flows by source

Supporting tables SB 12 to SB 17 show the adjusted monthly cash flows.

Section 14 - Adjustments to the quarterly service delivery and budget implementation plans - internal departments

Supporting table SB3 indicates the major adjustments.

Section 15 - Annual budgets and service delivery agreements - municipal entities and other external mechanisms

ENTITIES

The municipality does not have any entities.

Other Service Delivery Mechanisms.

The municipality has service delivery agreements with external parties for the delivery of the Municipality's services.

Section 16 - Contracts having future budgetary implications

The municipality does not have any roll - over contracts with budget implications.

Section 17 - Capital expenditure details

Capital expenditure details are listed in Supporting Table SB 18 to SB 19.

Section 18 - Municipal Manager's quality certification

I, _____, Municipal Manager of Matzikama Municipality, hereby certify that the adjustments budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the adjustments budget and supporting documents are consistent with the Integrated Development Plan of the Municipality.

Municipal Manager of Matzikama Municipality (WC045)

Signature

Date